

Message Text

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ACTION EUR-12

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PASS AGRICULTURE ELECTRONICALLY

E.O. 11652: N/A
TAGS: EAGR, EEC
SUBJECT: EC SUBSIDIES ON HOPS

REF: (A) EC BRUSSELS 2314, (B) STATE 47473, (C) 76 EC A-120

1. SUMMARY: THE COMMISSION'S DIRECTION GENERAL FOR AGRICULTURE DENIES THAT EC HOPS POLICY HAS DISTURBED THE WORLD MARKET. MOREOVER, THEY SAY THAT THEIR PROPOSALS FOR THE MODIFICATION OF THE HOPS CAP SHOULD IMPROVE THE EC AND WORLD MARKET SITUATION. THE MISSION BELIEVES THERE MAY BE SOME GIVE IN THE EC POSITION RE THE USE OF PRODUCER SUBSIDIES AS A FORM OF EXPORT SUBSIDY AND THEREFORE WE RECOMMEND THE INITIATION OF FURTHER DISCUSSIONS. PRIOR TO SUCH MEETINGS, HOWEVER, WE SUGGEST THAT THE ADVICE OF THE U.S. HOPS INDUSTRY BE SOLICITED.
END SUMMARY.

2. THE COMMISSION'S DIRECTION GENERAL FOR AGRICULTURE HAS
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GIVEN US A BRIEF NON-PAPER IN REPLY TO OUR PRESENTATION OF U.S. CONCERNS WITH THE EC HOPS POLICY (REF A). SEVERAL GRAPHS ARE ATTACHED SHOWING THE DEVELOPMENT OF AREA, PRODUCTION, PRICES AND PRODUCER SUBSIDIES IN THE EC HOPS SECTOR SINCE 1968. COPIES OF THIS PAPER ARE BEING SENT TO ED CASEY, EUR/RPE, STATE AND TO RICHARD B. SCHROETER, FAS/USDA.

3. THE MAIN POINTS MADE IN THE EC PAPER ARE AS FOLLOWS:

A. THE INCREASE IN THE EC HOPS AREA IN THE ACEARLY 70'S RESULTED FROM HIGH MARKET PRICES AND NOT FROM PAYMENT OF THE EC PRODUCER SUBSIDIES. FURTHERMORE, THE COMMISSION INDICATED THAT PRODUCER SUBSIDIES HAVE ONLY PARTIALLY COMPENSATED GROWERS FOR THE FALL IN PRICES SINCE 1975 AND THUS HAVE NOT INSULATED THEM FROM MARKET INFLUENCES.

B. THE EC'S NEW PEOPOSAL FOR VARIETAL RECONVERSION PREMIUMS WOULD REQUIRE GROWERS TO REDUCE THEIR AREA BY AT LEAST 40 PERCENT AS A CONDITION FOR THE GRANTING OF THE SUBSIDY. THIS FEATURE DEMONSTRATES THE EC'S CONCERN WITH MARKET STABILITY.

C. EC PRODUCTION SUBSIDIES DO NOT CONSTITUTE A SUBSIDY FOR EXPORT. DG VI DOES NOT DENY THAT THE HALLERTAU PRODUCER GROUP USED THESE SUBSIDIES TO "PURSUE A POLICY OF STABILIZATION IN 1975" (I.E., TO BUY UP SURPLUS HOPS AND EXPORT THEM AT REDUCED PRICES TO THE USSR), BUT THEY EMPHASIZE THAT THE COST OF THIS OPERATION WAS BORNE BY THE MEMBERS OF THIS PRODUCER GROUP (IN FOREGOING THEIR PRODUCER SUBSIDY). BESIDES, THE LOW SALES PRICE WAS NOT A FUNCTION OF COMMUNITY SUBSIDIES, BUT RATHER OF OVER-SUPPLY ON THE WORLD MARKET.

CONSEQUENTLY, THE COMMISSION CONCLUDES THAT IT CANNOT ACCEPT THE ASSERTION THAT EC POLICY HAS DISTURBED THE INTERNATIONAL MARKET TO THE DISADVANTAGE OF THE UNITED STATES. THEY CONSIDER, HOWEVER, THAT THEIR PROPOSALS FOR THE MODIFICATION OF THE BASIC LIMITED OFFICIAL USE

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MARKET REGULATION FOR HOPS (REF C) WOULD IMPROVE THE EC AND THE WORLD MARKET SITUATIONS.

4. WE REMARKED THAT THE COMMISSION WAS WELL AWARE OF THE SHORT-COMINGS OF ITS HOPS POLICY, AS EVIDENCED BY THEIR OUTSTANDING PROPOSALS FOR BASIC CHANGES IN THE HOPS CAP. WE WERE HOPEFUL THAT SOME OF THESE CHANGES, WHICH HAVE BEEN BEFORE THE COUNCIL SINCE JUNE 1976, WOULD SOON BE PUT INTO EFFECT. WE SUGGESTED THAT THE COMMISSION SHOULD GIVE FURTHER THOUGHT AS TO WHETHER THE USE OF PRODUCER SUBSIDIES AS A FORM OF EXPORT SUBSIDY (AS PRACTICED BY THE HALLERTAU GROUP IN 1975) WAS REALLY IN THE BEST INTEREST OF EC HOPS PRODUCERS AND URGED THEM TO CONSIDER RESTRICTING THE USE OF SUBSIDIES IN THIS MANNER. FINALLY, WE NOTED THAT EC HOPS PRODUCERS HAVE EXPRESSED INTEREST ADJUSTMENTS IN U.S. HOPS PRODUCERS HAVE EXPRESSED INTEREST IN ADJUSTMENTS IN U.S. HOPS PRODUCTION ALLOTMENTS. WE SAID THAT THE ADOPTION OF EC MEASURES AIMED AT RESTRAINING EC HOPS PRODUCTION WOULD MAKE IT EASIER FOR THE U.S. INDUSTRY TO UNDERTAKE SUCH ADJUSTMENTS.

5. RECOMMENDATION: THE MISSION BELIEVES THAT THE UNITED STATES HAS A CERTAIN LEVERAGE IN THE HOPS AREA BECAUSE OF EC INTEREST IN THE POLICY FOLLOWED BY THE U.S. HOPS INDUSTRY. EC HOPS GROWERS WILL BE CONSIDERABLY MORE VULNERABLE TO MARKET SWINGS OVER THE NEXT FEW YEARS BECAUSE A MUCH LOWER SHARE OF THEIR CROPS HAS BEEN MARKETING UNDER ADVANCE CONTRACTS THAN IS THE CASE IN THE UNITED STATES. IN PARTICULAR, WE BELIEVE THAT THERE MIGHT BE SOME GIVE IN THE EC POSITION RE THE POSSIBILITY OF RESTRICTING THE USE OF PRODUCER SUBSIDIES. COMMISSION OFFICIALS WORKING IN THE HOPS AREA TELL US PRIVATELY THAT THE USE OF PRODUCER SUBSIDIES AS A FORM OF EXPORT SUBSIDY AS PRACTICED BY THE HALLERTAU GROUP WAS NOT INTENDED BY EC REGULATIONS. FURTHERMORE, THEY SAY THAT THIS ACTION WAS UNPOPULAR WITH THE GROWERS AND THEY DO NOT EXPECT IT TO BE REPEATED. THEREFORE, WE BELIEVE THAT WE SHOULD INITIATE FURTHER DISCUSSIONS WITH THE COMMISSION WITH THE GOAL OF LIMITED OFFICIAL USE

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OBTAINING SOME SORT OF GUARANTEE FROM THE EC ON THE USE OF PRODUCER SUBSIDIES. BEFORE INITIATING SUCH DISCUSSIONS, HOWEVER, WE SUGGEST THAT THE U.S. HOPS INDUSTRY BE CONSULTED WITH REGARD TO THEIR EVALUATION OF OUTSTANDING EC PROPOSALS FOR THE IMPROVEMENT OF THE HOPS CAP (IN PARTICULAR, PROPOSALS FOR CHANGES IN THE CALCULATION AND PAYMENT OF PRODUCER SUBSIDIES AND FOR THE GRANTING OF A VARIETAL RECONVERSION PREMIUM--OUTLINED IN REF. C-ND FOR A 2YEAR BAN ON NEW PLANTINGS) SO THAT WE CAN USE THEIR COMMENTS AND SUGGESTIONS IN OUR TALKS WITH THE COMMISSION. WE BELIEVE THAT SUCH AN APPROACH, AIMED SPECIFICALLY AGAINST THE USE OF MONEY FOR EXPORT SUBSIDIES, WOULD BE CONSISTENT WITH THE GENERAL DIRECTION OF U.S. EFFORTS TO MOVE THE E.C. AWAY FROM HIGH PRICE POLICIES AND TOWARD INCOME PAYMENTS TO FARMERS. HINTON

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